

## **FirstHomes Tax Credit**

### **FAQs**

**Q: What is a FirstHomes Tax Credit?**

**A:** The FirstHomes Tax Credit is another name for a federal tax credit known as a Mortgage Credit Certificate (“MCC”). This certificate reduces the amount of federal income tax a homeowner pays by providing an annual federal income tax credit equal to 20% of the mortgage interest paid during the tax year. The FirstHomes Tax Credit is not a tax deduction and is available to the homeowner for the life of the loan, as long as the homeowner occupies the home as a principal residence. The value of the FirstHomes Tax Credit is applied directly to the homeowner’s tax liability; any interest the homeowner pays on his/her loan above the value of the credit will continue to qualify as an itemized tax deduction. The tax credit is available for select loan products.

**Q: Do you have to be a first-time homebuyer to be eligible for the Tax Credit?**

**A:** The FirstHomes Tax Credit is also available to non-first-time homebuyers purchasing in targeted areas, including parts of Central Falls, Pawtucket, Providence and Woonsocket.

**Q: How did you decide on the targeted locations?**

**A:** The targeted locations are based on census information and the income-level of the residents in those locations.

**Q: Is the FirstHomes Tax Credit program going to be offered for a limited amount of time or only up to a certain amount of money?**

**A:** Rhode Island Housing expects to be able to issue FirstHomes Tax Credits tied to mortgages in an aggregate principal amount of about \$93 million. Applications for the program are taken on a rolling basis. The program will continue until the end of 2015 or until we reach the maximum available issuance.

**Q: Do all states offer first-time homebuyer tax credits?**

**A:** No, not all states offer the tax credits.

**Q: What types of properties qualify for the tax credit program?**

**A:** The FirstHomes Tax Credit can be used for an owner-occupied one- to four-family home or eligible condominium.

**Q: Does the credit need to be used in one lump sum at tax time?**

**A:** Homeowners may adjust their W-4 withholding to account for the tax-credit benefit, thus providing a higher monthly net income for loan qualification.

**Q: If you receive a large refund on your tax return are you still eligible for the tax credit?**

**A:** Yes, as long as you have tax liability you can use the credit to offset that liability.

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**Q: Can you still take a tax deduction on your tax return?**

**A:** Yes, you can deduct the full amount of interest minus the amount of credit received, if you are eligible to itemize deductions. The IRS refers to the tax credit as a Mortgage Credit Certificate (MCC) and requires a separate form to be filed with your return (Form 8396: Mortgage Interest Credit). You can obtain the tax credit even if you are not eligible to itemize deductions.

**Q: Once approved, how does a homeowner receive the tax credit dollars?**

**A:** The homeowner can either adjust their withholding to have less taxes deducted from each paycheck, or receive it as a refund at the end of the year.

**Q: What happens if my tax liability is not as great as the credit?**

**A:** A homeowner cannot claim the credit in excess of the total tax liability for a given year; however, any excess credit may be carried forward for up to three (3) subsequent tax years to reduce future tax liability.

**Q: Can you carry over the tax credit to the next year?**

**A:** Yes, if a homeowner doesn't use the full amount of the tax credit in one year, he/she can carry the unused credit forward to the next 3 tax years, or until used, whichever comes first.

**Q: What are the fees associated with the program?**

**A:** The following fees are associated with the program:

- Non-refundable reservation fee of \$100.00
- Tax Credit Issuance Fee
  - Rhode Island Housing Mortgage FirstHomes Tax Credit Fee: \$500.00
  - Non-Rhode Island Housing Mortgage FirstHomes Tax Credit Fee: \$750.00
- Optional Lender Fee: \$150.00

Other than the fees set forth above, the Lender may charge only those points, origination fees, servicing fees and other fees in amounts that are customarily charged with respect to loans not provided in connection with the FirstHomes Tax Credit.

**Q: Can the seller pay the fees associated with the tax credit?**

**A:** Yes, the fees associated with the tax credit can be paid by the buyer or seller. Many of the fees can even be wrapped into Extra Assistance programs offered through Rhode Island Housing, though the reservation fee must be paid at the time of application.

**Q: What restrictions, if any, are there on sellers under this program?**

**A:** Sellers need to be aware that the home must be occupied by the buyer within 60 days of closing. They should also note that the \$392,823 maximum purchase price is actually a maximum acquisition price and any and all items acquired during the sale (appliances, furniture, etc.) must be included in the price and come to or under \$392,823.

**Q: What if the home is a 203(k) – purchase rehab – or has other issues that delay move in past the 60 day timeframe?**

**A:** Taking residence within 60 days is an IRS guideline for the program. The new homeowner must affirm the **intention** to move into the home within 60 days of closing; however, if necessary work prevents the buyer from moving in within that timeframe that is acceptable as long as the homeowner affirms an **intent** to move in within the later of 60 days of closing or completion of the rehabilitation work.

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**Q: If a homebuyer purchases a multifamily home with three units, one of which they will live in, do they only receive the tax credit for the unit in which they reside (i.e. receive tax credit for one third of the total interest paid)?**

**A:** No, the tax credit is based on the amount of interest paid on the entire loan secured by the property and therefore applies to the entire property and not just the unit that serves as the owner's primary residence.

**Q: Can the FirstHomes Tax Credit be issued when a non-occupant co-borrower is on the deed and is responsible for the first mortgage financing?**

**A:** No. All individuals on the deed to the property and on the recorded mortgage (ownership interest) must satisfy the compliance requirements – e.g., first-time homeowner and occupancy requirements.

**Q: What are the requirements for non-purchasing spouses and/or other non-purchasing adults who will reside in the home (i.e., adult household members not obligated on the first mortgage financing and not listed on the deed)?**

**A:** These applications will be evaluated on a case-by-case basis. Generally speaking, however, if a non-purchasing spouse, intended spouse, or committed partner is part of the household that will occupy the property, then they must satisfy all of the compliance requirements that the purchasing owner must satisfy, regardless of whether they take an ownership interest. Their income will be included as part of the household income for compliance purposes, and they must also satisfy the first-time homeowner and occupancy requirements. If any other non-purchasing adult, such as an adult relative or an unrelated friend, intends to reside in the home, their income will be included as part of the household income for compliance purposes, but they are not required to demonstrate first-time homeowner status or meet the occupancy requirements.

**Q: If adult children live at the home, is their income counted?**

**A:** Only the first \$480 in earned income of full-time students, 18+, who are dependents, is counted. Unearned income of such persons is counted without limitation.

**Q: What if the homebuyer's income increases, are they still eligible for the tax credit?**

**A:** Yes, income eligibility is only applicable when the loan is closed. There are no further income requirements to be eligible for the credit once the loan is closed.

**Q: What if the homeowner gets married after the loan has closed, does the spousal income get added to the total income and result in loss of eligibility for the tax credit?**

**A:** No, if the homeowner's income changes after closing, they are still eligible for the tax credit.

**Q: What if the homeowner refinances their loan, do they still get to keep the tax credit?**

**A:** Yes, the homeowner is eligible to receive the tax credit for the remaining years on the original mortgage term provided that the amount of the annual tax credit is no higher than the original amount of the credit which would have been received on the previous loan. For each tax year, you must determine the amount of credit that you would have been allowed using your original MCC. IRS Regulations section 1.25-3(p) can be consulted for further information.

**Q: How long does the underwriting process take on average?**

**A:** The turnaround time for underwriting the tax credit is 48 hours as long as the customer has provided all the necessary paperwork.